2GenPen

One Intelligence. Every Credit.

MUseQ® White Paper

A Multidimensional Risk-State Analysis of the City of New York General Obligation Credit (Unlimited Tax General Obligation – UTGO)

Prepared Using the MUseQ® Analytical Framework

2GenPen LLC

Executive Summary

Recent rating actions and public discourse regarding the City of New York's General Obligation ("GO") credit have elevated focus on fiscal conditions, governance dynamics, and projected budgetary imbalances. While these considerations are relevant to broader financial management and market perception, they are frequently conflated with default risk.

This report applies the MUseQ® (Municipal Securities Equalization Quotient) framework to evaluate NYC's GO credit based on structural payment mechanics, rather than narrative driven or NRSRO rating based approaches.

NYC's GO credit operates within a legally defined payment system in which debt service is a mandatory obligation, supported by enforceable requirements to generate sufficient revenue under all conditions.

For investors familiar with structured credit, this framework functions analogously to a hard-coded payment waterfall with a built-in "true-up" mechanism, ensuring that debt service is funded regardless of economic or political circumstances.

Crucially, payment is not a function of operating performance, budgetary balance, or discretionary policy decisions. Instead, it is governed by constitutionally mandated payment priority, statutory revenue "true-up" requirements, and unlimited taxing authority.

In this context, fiscal pressures, policy debates, and rating actions may influence market perception and pricing, but they do not alter the legal mechanisms that require payment.

This distinction is particularly relevant in environments where fiscal narrative and market perception may diverge from the legal mechanisms that govern payment.

When evaluated on structural payment mechanics rather than fiscal trajectory or narrative considerations, the NYC GO credit exhibits the characteristics of a highly resilient payment system with substantial capacity to absorb stress.

The key characteristics driving that resiliency are:

- NYC GO bonds are supported by unlimited ad valorem tax authority (UTGO),
- debt service is legally required to be budgeted and funded,
- the City must “true up” revenues through taxation if needed,
- GO debt service represents less than 4% of the City’s budget, and
- current events may affect perception, but do not alter payment mechanics.

I. MUseQ® Framing: Credit as a Payment System

MUseQ® evaluates credit not as a probability, but as a system governing payment behavior under stress.

Rather than focusing on forecasts or ratings, the framework asks “what mechanisms ensure that cash is available for payment, regardless of economic or political conditions?”

For the NYC GO credit, payment is not dependent on operating margins, refinancing conditions, or discretionary policy decisions.

Instead, it is governed by a legally enforced system that compels revenue generation sufficient to meet debt service.

II. Legal Architecture: A Statutory Payment System

A. Constitutional Foundation

The New York State Constitution, Article VIII, Section 2 requires that the City maintain the ability to provide for payment of principal and interest on its GO debt service.

If the City fails to appropriate funds for debt service, the Constitution mandates that a “sufficient sum shall be set apart from the first revenues thereafter received."

This means the City Comptroller’s office does not have the choice to pay; it is constitutionally required to divert the very first dollars hitting the City's coffers, before police, fire, or teachers are paid, directly to bondholders. It is a legal "interceptor" that functions like a senior-most lien in a structured waterfall.

Debt service is not optional. It is a binding system requirement embedded at the constitutional level.

B. The Statutory "Lockbox" (The General Debt Service Fund)

Real estate tax collections, the City's primary revenue source, do not flow directly into the General Fund to be spent at the Mayor's discretion. Under the Financial Emergency Act controlling the City's financial operations, these taxes must be first deposited into a separate General Debt Service Fund held by the State Comptroller each fiscal quarter in amounts directly tied to the City's GO debt service requirements.

This effectively "ring-fences" those revenues exclusively for the benefit of GO bond holders. (All other debt of the City, such as that of the Transitional Finance Authority, have their own separate payment mechanisms.)

Required General Debt Service Reserve Fund monies are legally removed from the City's operational control as soon as it is collected, thereby protecting those revenues from budgetary raids or political redirection to cover other City expenses.

C. Budget Inclusion Requirement (LFL §100.00)

This Local Finance Law specifies that debt service must be included in the annual budget.

This requirement functions like a mandatory allocation in a payment waterfall—debt service cannot be bypassed or deferred.

D. Revenue "True-Up" Requirement (LFL §101.00)

"There shall be raised by tax… an amount sufficient to pay… principal and interest…"

This Local Finance Law requirement specifies that if revenues are insufficient to fund debt service, the City is required to "true-up" the revenues through taxation.

This is critical as no matter where the City is in its economic cycles, the payment system is statutorily configured to dynamically adjust its revenue generation to meet its GO debt service obligations.

E. Unlimited Tax Authority (LFL §165.00)

Under this Local Finance Law requirement, taxes may be levied “without limitation as to rate or amount”.

There is no structural cap on revenue generation. For structured credit investors, this is equivalent to uncapped collateral replenishment capacity combined with a mandatory true-up trigger.

F. The Guardrail: NY State law provides bondholders the right to a Writ of Mandamus

GO Bondholders have the right to a “Writ of Mandamus” which is a court order that can compel a public official to perform their duty (specifically, to levy the necessary tax and pay debt).

In a structured finance context, this is equivalent to having a Trustee with the power to force the Servicer to act. It removes the "willingness to pay" risk because a court can legally strip the political decision-making power from City Hall and force the tax levy.

G. Bankruptcy Protection

The structural resilience of the NYC GO credit is anchored by a definitive legal barrier: New York City is not authorized under New York State law to file for bankruptcy under Chapter 9.

Under the New York State Financial Emergency Act (FEA), the City is mandated to resolve fiscal imbalances through state-level oversight and the mandatory operation of the General Debt Service Fund.

This lack of a legal exit via federal court protection ensures that the City’s taxing power remains an inescapable mechanism for debt satisfaction, distinguishing it fundamentally from corporate entities that utilize Chapter 11 for debt impairment.

III. Removal of Political Discretion

A central misconception in evaluating municipal credit is the role of politics.

For the NYC GO credit, the statutory framework is specifically designed to remove political discretion from the payment of debt service.

The decision to pay debt service is not a political decision—it is a legal obligation enforced by the structure itself. Critically, this structure is shielded from federal bankruptcy intervention, as New

York State statute does not grant the City the authority to seek Chapter 9 protection, thereby removing the possibility of a court-sanctioned impairment of GO bondholder rights.

This is a key distinction: political discourse may affect policy priorities and spending decisions, but it does not override the statutory requirement to fund debt service.

A Mayor would have to actively sue the State or violate a court mandated Writ of Mandamus to stop payment on its GO debt service.

IV. Debt Service Burden: System Capacity

NYC GO debt service is less than 4% of the City's budget.

This implies that even under stress, the required revenue adjustment to meet debt service is small relative to the City's total fiscal capacity, reinforcing the system's ability to absorb economic variability. The payment system is not operating near its limits. It has substantial unused capacity.

V. Economic Base: Revenue Generation Engine

NYC's economy provides a broad and diversified tax base and continuous revenue generation across sectors.

The underlying revenue engine feeding the statutory payment system is large, diversified, and resilient with the City holding taxing power over $1.5 trillion of taxable real estate within its jurisdiction.

This enhances the reliability of baseline revenues and ease of executing the statutory "true-up".

VI. Institutional Alignment

NYC's reliance on the capital markets creates strong incentives to service its GO debt service in order to continue access to funding, stabilize its cost of capital, and achieve system-wide financial credibility.

The City is structurally incentivized to comply with the payment system, reinforcing the legal framework.

New York State too has a fiduciary and political mandate to prevent a default on the City's GO debt service as its own rating and market access is linked to the City's performance.

In this regard, the state level regulatory oversite provided by the State Comptroller and the Financial Control Board functions as a permanent, statutory credit enhancement facility.

VII. Reframing the Credit Watch Narrative

Recent rating actions emphasize political dynamics and governance considerations

From a MUseQ® perspective, these factors are external to the payment system governing debt service.   The current negative credit watch, for instance, primarily reflects narrative and policy-related considerations rather than changes to the underlying payment mechanisms.

There is no change to the core credit realities - legal payment requirements, the revenue “true-up mechanisms,” taxing authority, or system capacity - that ensure payment.

Further, the City continues to prove its economic resiliency in critical ways*:

- in late 2024, current office leasing in Manhattan reached its highest level since 2014,
- major financial institutions have made long term commitments such as JP Morgan’s new 60 story headquarters on Park Avenue and American Express’s two million square foot deal at the World Trade Center,
- NYC is still a force for talent pool concentration with 60% of mid and early career professionals from top schools still choosing New York over Florida,
- even firms that moved their headquarters out of NYC, like Elliot Management continue to grow their presence in the City, and
- the perceived tax benefits of tax benefits of Florida or Texas are largely offset by higher property and rising insurance rates.

Despite recent NRSRO rating actions, actual leasing velocity, talent concentration, and massive infrastructure investments confirms that the core economic engine that generates the revenues pledged to pay the City’s GO debt service remains resilient.

* The data quoted above as published in “The Great Wall Street Relocation that Never Quite Happens” by James Fontanella-Khan, Financial Times, April 3, 2026

VIII. Current Events: Signal vs. Structure

Recent developments may affect market sentiment, pricing, and investor perception, but they do not alter the underlying payment system.

MUseQ’s patented AI driven algorithms focus on the GO credit’s risk state which remains unchanged despite the increase in narrative volatility.

IX. MUseQ® Risk-State Assessment

The NYC GO credit demonstrates:

- legally enforced payment priority,
- mandatory revenue "true-up" mechanism,
- unlimited revenue generation authority,
- low relative payment burden, and
- a large and diversified economic base.

While the structural characteristics of the NYC GO payment system are clear, market assessments of credit quality often incorporate a broader set of considerations that extend beyond payment mechanics. Understanding this distinction is important in evaluating how risk is perceived versus how payment is structurally ensured.

X. Ratings Framework vs. Payment Mechanics

NRSRO credit ratings for municipal issuers incorporate a broad range of factors, including fiscal trajectory, governance, policy flexibility, reserve levels, and economic sensitivity. These factors are relevant to the issuer's overall financial condition and may influence market access, cost of capital, and investor perception.

However, these considerations are analytically distinct from the structural mechanisms that govern bondholder payment.

For NYC's GO credit, debt service is not contingent upon:

- achieving structural budget balance,
- maintaining reserves at current levels, or
- favorable economic or market conditions.

Instead, payment is governed by a legally enforced system that compels performance, including:

- constitutionally mandated payment priority,
- statutory revenue "true-up" requirements, and
- unlimited taxing authority.

As a result, a deterioration in fiscal metrics, such as projected budget gaps, reserve drawdowns, or expenditure growth, may affect perception, pricing, and rating outlooks, but it does not alter the legal and structural mechanisms that ensure debt service is funded.

In this context, NRSRO rating actions may be understood as signals of the City's fiscal trajectory and policy complexity rather than indicators of payment impairment.

In summary, the NRSRO rating frameworks address the difficulty of adjustment; the MUseQ® framework addresses the certainty of payment.

Accordingly, for investors evaluating default risk, particularly those approaching municipal credit from a structured finance perspective, the distinction between fiscal condition and payment mechanics is critical.

NYC GO bonds operate within a system in which revenue generation is not assumed, but legally compelled, and in which payment priority is embedded at the highest level of law.

Conclusion

For investors evaluating the NYC GO credit, particularly those approaching the asset class from a structured finance perspective, the key takeaway is that NYC GO bonds are governed by a legally defined payment system that compels revenue generation sufficient to meet debt service, effectively removing political discretion from the payment process.

Accordingly, payment is not primarily a function of annual operating performance, refinancing conditions, or discretionary fiscal decision-making. Instead, it is governed by statutory obligation, enforceable revenue "true-up" mechanisms, and unlimited taxing authority.

Current events may influence perception and market pricing, but they do not alter the structural mechanisms that ensure GO bondholder payment.

MUseQ® Perspective on Relative Risk and Valuation

When evaluated through a multidimensional, cross-asset framework that emphasizes structural payment mechanics rather than rating convention or narrative overlays, the NYC GO credit exhibits characteristics commonly associated with highly resilient credit structures:

- legally enforced payment priority,
- dynamic revenue adjustment ("true-up") capability,
- substantial excess capacity relative to debt service requirements, and
- independence from performance-based cash flow constraints.

Within such a framework, the relative positioning of NYC GO credit in traditional NRSRO rating and credit spread hierarchies reveals a disconnect between how risk is measured and how payment is structurally ensured.

Unlike many credit instruments that rely on projected cash flow sufficiency, market access, or refinancing conditions, the NYC GO credit operates within a system where the ability to generate revenue is not assumed - it is legally compelled.

Final Observation

For investors accustomed to evaluating credit through the lens of structural protections, coverage dynamics, and payment waterfalls, the NYC GO credit represents a case in which payment certainty is derived from statutory authority and revenue generation capacity rather than cyclical financial performance.

Because cross-asset comparisons rely on inconsistent analytical frameworks wherein narrative factors are overweighted relative to structural payment mechanics, the NYC GO credit has been systematically positioned in a manner that understates its structural resilience relative to other credit instruments evaluated on a different analytical basis.

This distinction is particularly relevant in environments where narrative volatility and fiscal complexity may influence market perception without altering the legal mechanisms that govern payment.

In this context, observed market spreads and relative value positioning warrant evaluation through a structural lens that more directly reflects the legal and economic mechanisms governing the City GO credit's payment requirements.

When viewed through such a lens, the reality emerges that long before the City defaulted on its GO debt, private financial markets - encompassing billions of dollars of higher NRSRO rated structured asset classes - would likely have experienced severe and widespread disruption.

Appendix

MUseQ® Analytical Framework (Conceptual Overview)

MUseQ®'s patented machine learning framework evaluates credit instruments within a multidimensional structural risk space defined by fundamental determinants of default vulnerability.

Key analytical dimensions include:

- legal payment authority
- revenue essentiality
- economic diversification
- systemic correlation exposure
- institutional payment incentives

The framework employs AI-driven analytical techniques to evaluate the relative dominance of different risk states across these dimensions.

To preserve patented methodology, this report presents the framework conceptually without disclosing detailed computational protocols.

2GenPen

One Intelligence. Every Credit.

Disclaimers and Important Information

This report has been prepared by **2GenPen LLC** for informational and analytical purposes only.

- This report is not a credit rating and does not constitute a recommendation to buy, sell, or hold any security.
- 2GenPen LLC is not a Nationally Recognized Statistical Rating Organization (NRSRO) and does not issue ratings as defined under U.S. securities laws.
- The MUseQ® framework is a proprietary analytical methodology designed to evaluate structural characteristics of credit instruments and does not predict future market performance or price behavior.
- All information herein is derived from sources believed to be reliable but is not guaranteed as to accuracy or completeness.
- This report does not constitute investment, legal, or tax advice.
- Investors should conduct independent analysis and consult professional advisors prior to making investment decisions.

Past performance or structural analysis is not indicative of future results.